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ELDR briefing: Capital requirements and supervision

WHY is it important?

The European Parliament adopted on 6 May tougher bank capital rules in a further step to restore confidence to markets shaken by the worst financial crisis in decades.

The Capital Requirements Directives seeks to improve the transparency and the supervision of the financial system and aims to ensure proper risk management in the banking sector.

The main points of the proposed legislation are:

- Enhancing both efficiency and effectiveness of supervision and crisis management
- Revisions of rules from previous directives, particularly on the exposure of banks' money and securitisation;

WHAT does this actually mean?

To make markets safer for investors, banks will be required to retain five percent of the securitised products they originate and sell. Securitised products, such as mortgage-backed securities, were at the heart of the credit crunch.

Banks are also not permitted to expose more than 25% of their own funds to a client or group of clients. This is to ensure that banks are not solely dependent on one single client and therefore reduces the risk of loss if the client is unable to repay money to the bank.

Colleges of supervisors for all big cross-border banks will also be set up, so that all the national regulators that oversee operations across the EU can meet regularly to share information and spot any problems early. However, a more coordinated EU supervisory system has been ruled out, and doubts remain over the efficiency of the college-based oversight.

ELDR Vice President and shadow rapporteur on this directive, Sharon Bowles, commented: "As far as supervision is concerned, these changes are an important first step. They will be augmented in due course when the appropriate way forward for a layer of European supervision has been worked out."

WHEN will this draft legislation now become a reality?

The proposed new rules should swiftly become EU law as they have the approval of governments. The final agreement of the Council is now considered as a formality.

For further reference:

http://www.europarl.europa.eu/news/expert/infopress_page/042-55120-124-05-19-907-20090505IPR55119-04-05-2009-2009-false/default_en.htm

http://www.euractiv.com/en/financial-services/parliament-backs-tighter-capital-rules-banks/article-182058